



May 15, 2019

PHILIPPINE STOCK EXCHANGE

9th Floor, Philippine Stock Exchange Tower,
28th Street corner 5th Avenue, BGC Taguig City
Attention: Janet A. Encarnacion
Head, Disclosure Department

Subject: Starmalls, Inc.: **SEC 17Q – March 31, 2019**

Gentlemen:

Please see attached SEC Form 17Q for the quarter ended March 31, 2019.

Thank you.



Brian N. Edang
Officer-in-Charge

COVER SHEET

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S.E.C. Registration Number										

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(Company's Full Name)

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(Business Address : No. Street/City/Province)

Brian N. Edang
Contact Person

571-5948 / 871-4001
Company Telephone Number

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17-Q
FORM TYPE

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Secondary License Type, If Applicable

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Total Amount of Borrowings		
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Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

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File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE
SECURITIES REGULATION CODE AND SRC RULE 17(2)(B) THEREUNDER

1. For the quarter ended March 31, 2019
2. SEC Identification Number 39587
3. BIR Tax Identification No. 000-806-396
4. STARMALLS, INC.
Exact name of the registrant as specified in its charter
5. Metro Manila, Philippines
Province, country or other jurisdiction of incorporation
6. Industry Classification Code (SEC Use Only)
7. Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daanghari, Almanza II, Las Piñas City
Address of Principal Office 1747
Postal Code
8. (02) 571-5948 / (02) 871-4001
Registrant's telephone number, including area code
9. N/A
Former name, former address and former fiscal year, if change since last report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA
- | Title of each Class | Number of Shares of common stock outstanding |
|------------------------|--|
| Common stock | 8,425,981,156 shares |
| Preferred stock | 2,350,000,000 shares |
11. Are any of the registrant's securities listed on the Philippine Stock Exchange?
Yes [x] No []
- If yes, state the name of such stock exchange and the classes of securities listed therein:
Philippine Stock Exchange – Common Shares
12. Check whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Section 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period of the registrant was required to file such reports.)
- Yes [x] No []
- (b) has been subject to such filing requirements for the past 90 days.
- Yes [x] No []

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STARMALLS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF MARCH 31, 2019 AND DECEMBER 31, 2018
(In Million Pesos)

	Unaudited 03/31/2019	Audited 2018
<u>ASSETS</u>		
CURRENT ASSETS		
Cash (Note 7)	402	418
Investments at FVTPL (Note 8)	29	29
Receivables (Note 9)	4,227	3,583
Receivables from related parties	2,851	2,851
Real estate properties for sale (Note 10)	303	322
Prepayments and other current assets (Note 11)	1,835	2,135
Total Current Assets	<u>9,647</u>	<u>9,338</u>
NON-CURRENT ASSETS		
Investments at FV through OCI (Note 8)	4,176	4,069
Receivables - net of current portion (Note 9)	4,230	3,275
Receivables from related parties – net of current portion	355	0
Property and equipment	69	67
Investment properties (Note 12)	37,210	35,316
Other noncurrent assets (Note 11)	162	852
Total Non-current Assets	<u>46,202</u>	<u>43,579</u>
TOTAL ASSETS	<u>55,849</u>	<u>52,917</u>
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES		
Trade and other payables (Note 14)	2,180	2,424
Interest-bearing loans and borrowings (Note 15)	1,176	1,559
Liability for purchased land (Note 13)	178	582
Income tax payable	72	64
Payables to related parties	21,299	18,377
Total Current Liabilities	<u>24,905</u>	<u>23,006</u>
NON-CURRENT LIABILITIES		
Interest-bearing loans and borrowings - net of current portion (Note 15)	4,291	4,298
Liability for purchased land (Note 13)	213	213
Pension Liabilities	49	49
Deferred tax liabilities – net	2,538	2,307
Other non-current liabilities	957	802
Total Non-current Liabilities	<u>8,048</u>	<u>7,669</u>
Total Liabilities	<u>32,953</u>	<u>30,675</u>
EQUITY		
Equity attributable to parent company's shareholders (Note 16)		
Capital Stock	8,449	8,449
Additional paid-in capital	6,389	6,389
Revaluation reserves	-	-
Retained earnings	9,122	8,471
Other Comprehensive Income	(1,189)	(1,189)
Total equity attributable to parent company's shareholders	<u>22,771</u>	<u>22,120</u>
Non-controlling interest	125	121
Total Equity	<u>22,896</u>	<u>22,242</u>
TOTAL LIABILITIES AND EQUITY	<u>55,849</u>	<u>52,917</u>

STARMALLS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(In Million Pesos)

	Unaudited Jan-Mar Q1 - 2019	Unaudited Jan-Mar 2019	Unaudited Jan-Mar Q1 - 2018	Unaudited Jan-Mar 2018
REVENUES				
Rental Income	1,630	1,630	1,376	1,376
Other Operating Income	135	135	122	122
	<u>1,765</u>	<u>1,765</u>	<u>1,498</u>	<u>1,498</u>
OPERATING EXPENSES				
Depreciation and Amortization	330	330	250	250
Other operating and administrative (Note 17)	472	472	413	413
	<u>802</u>	<u>802</u>	<u>663</u>	<u>663</u>
OPERATING PROFIT	<u>963</u>	<u>963</u>	<u>835</u>	<u>835</u>
OTHER INCOME (CHARGES)				
Finance income	5	5	5	5
Finance costs – net	(46)	(46)	(7)	(7)
	<u>(41)</u>	<u>(41)</u>	<u>(2)</u>	<u>(2)</u>
PROFIT BEFORE TAX	922	922	833	833
TAX EXPENSE	(267)	(267)	(251)	(251)
NET INCOME	<u>655</u>	<u>655</u>	<u>582</u>	<u>582</u>
NET INCOME ATTRIBUTABLE TO:				
Equity holders of the Parent Company	651	651	578	578
Non-controlling interest	4	4	4	4
	<u>655</u>	<u>655</u>	<u>489</u>	<u>489</u>
Weighted outstanding common shares	8,426	8,426	8,426	8,426
Basic / Diluted Earnings per share (Note 18)	<u>0.077</u>	<u>0.077</u>	<u>0.069</u>	<u>0.069</u>

STARMALLS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(In Million Pesos)

	Unaudited Jan-Mar Q1 - 2019	Unaudited Jan-Mar 2019	Unaudited Jan-Mar Q1 - 2018	Unaudited Jan-Mar 2018
NET INCOME	655	655	582	582
OTHER COMPREHENSIVE INCOME (LOSS)				
Fair value loss on Available for Sale Financial Assets	-	-	-	-
TOTAL COMPREHENSIVE INCOME	655	655	582	582
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Equity holders of the Parent Company	651	651	578	578
Non-controlling interest	4	4	4	4
	655	655	582	582
Weighted outstanding common shares	8,426	8,426	8,426	8,426
Basic/Diluted Earnings per Share (Note 18)	0.077	0.077	0.069	0.069

STARMALLS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(In Million Pesos)

	Unaudited Jan – Mar 2019	Unaudited Jan – Mar 2018
EQUITY ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS		
COMMON STOCK		
Balance at beginning of period	8,426	8,426
Treasury shares	-	-
Balance at end of period	8,426	8,426
PREFERRED STOCK		
Balance at beginning of period	23	23
Treasury shares	-	-
Balance at end of period	23	23
ADDITIONAL PAID-IN CAPITAL	6,389	6,389
Cost of additional life of Starmalls	-	-
Balance at end of period	6,389	6,389
RETAINED EARNINGS		
Balance at beginning of period	8,471	6,433
Net income	655	582
Dividend declared	-	-
Minority interest	(4)	(4)
Balance at end of period	9,122	7,011
OTHER COMPREHENSIVE INCOME		
Balance at beginning of period	(1,189)	(764)
Fair value gains (losses)	-	-
Balance at end of period	(1,189)	(764)
MINORITY INTEREST		
Balance at beginning of period	121	112
Share in net income	4	4
MINORITY INTEREST	125	116
TOTAL EQUITY	22,896	21,201

STARMALLS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(In Million Pesos)

	Unaudited Jan-Mar Q1 - 2019	Unaudited Jan-Mar 2019	Unaudited Jan-Mar Q1 - 2018	Unaudited Jan-Mar 2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before tax	922	922	833	833
Adjustments for:				
Finance Costs	46	46	7	7
Depreciation and amortization	330	330	250	250
Interest income	(5)	(5)	(5)	(5)
Operating income before changes in operating assets and liabilities	1,293	1,293	1,085	1,085
Decrease (Increase) in:				
Trade and other receivables	(2,004)	(2,004)	(1,199)	(1,199)
Prepayments and other current assets	319	319	(278)	(278)
Increase (Decrease) in:				
Trade and other payables	(233)	(233)	1,205	1,205
Cash from operations	(625)	(625)	813	813
Payment of taxes	(39)	(39)	(64)	(64)
Interest received	5	5	5	5
Interest paid	(46)	(46)	(115)	(115)
Net Cash provided by (used in) Operating Activities	(705)	(705)	639	639
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of AFS investments	(107)	(107)	-	-
Increase in investment properties and property and equipment	(2,226)	(2,226)	(1,587)	(1,587)
Increase in other non-current assets	690	690	199	199
Increase in other non-current liabilities	155	155	(12)	(12)
Net Cash used in Investing Activities	(1,488)	(1,488)	(1,400)	(1,400)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in payables to related parties - net	2,567	2,567	996	996
Payments of interest bearing loans and borrowings – net	(390)	(390)	(509)	(509)
Increase (decrease) in refundable deposits	-	-	(10)	(10)
Net Cash provided by Financing Activities	2,177	2,177	477	477
NET DECREASE IN CASH	(16)	(16)	(284)	(284)
CASH AT BEGINNING OF PERIOD	418	418	572	572
CASH AT END OF PERIOD	402	402	288	288

STARMALLS, INC. AND SUBSIDIARIES
NOTES TO INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Starmalls, Inc. (the Parent Company) was incorporated in the Republic of the Philippines and duly registered with the Securities and Exchange Commission (SEC) on October 16, 1969, originally to pursue mineral exploration. After obtaining Philippine SEC approval on November 10, 2004, the Parent Company changed its primary business to holding investments in shares of stock and real estate.

The Parent Company is the holding company of the Starmalls Group (the Group) which is engaged in development and leasing of retail malls and Business Process Outsourcing (“BPO”) commercial centers. The Group has wholly owned subsidiary, Masterpiece Asia Properties, Inc. (MAPI) and a 98.36% owned subsidiary, Manuela Corporation (MC or Manuela).

On November 10, 2015, Vista Land & Lifescapes, Inc. (VLLI or Vista Land) signed an agreement with the existing shareholders of the Group to acquire 88.34% or 7,443.19 million shares of the outstanding capital stock of the Parent Company for a total consideration of ₱33,537.36 million.

Starmalls and its subsidiaries became subsidiaries of Vista Land as at December 31, 2015.

Both Vista Land and Starmalls Group are entities under common control of Fine Properties, Inc. (the Ultimate Parent Company or Fine). Accordingly, Vista Land accounted for the acquisition of the Group under the pooling-of-interest method of accounting.

The Parent Company is 88.34% owned by Vista Land while 7.50% is owned by Land & Houses Public Company Limited and 4.16% is owned by the public. The Parent Company’s shares of stock are listed at the Philippine Stock Exchange (PSE).

The Parent Company’s new registered office and principal place of business is located at Lower Ground Floor, Building B, EVIA Lifestyle Center, Vista City, Daanghari, Almanza II, Las Piñas City.

2. BASIS OF PREPARATION

The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis, except for the financial assets measured at fair value through other comprehensive income (FVOCI) (previously accounted for as available-for-sale (AFS) financial asset) and fair value through profit or loss (FVTPL), which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso (₱) which is the functional and presentation currency of the Parent Company, and all amounts are rounded to the nearest Philippine Peso unless otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of March 31, 2019 and December 31, 2018, and for each of the three months in the period ended March 31, 2019.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the noncontrolling interests (NCI), even if this results in the NCI having a deficit balance. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other similar events. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries. The voting rights held by the Group in these subsidiaries are in proportion of their ownership interest.

	Percentage of Ownership	
	31-Mar-19	31-Dec-18
Manuela Corporation	98.36%	98.36%
Masterpiece Asia Properties, Inc.	100.00	100.00

Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Group.

Noncontrolling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from parent shareholder's equity. Any losses applicable to the noncontrolling interests are allocated against the interests of the noncontrolling interest even if this results to the noncontrolling interest having a deficit balance. The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction. Any excess or deficit of consideration paid over the carrying amount of the noncontrolling interest is recognized in equity of the parent in transactions where the noncontrolling interest are acquired or sold without loss of control.

As at March 31, 2019 and 2018, percentage of non-controlling interests pertaining to Manuela Corporation amounted to 1.64%. The voting rights held by the non-controlling interest are in proportion of their ownership interest.

The Parent Company and the subsidiaries are all domiciled and incorporated in the Philippines and are in the business of leasing commercial spaces and buildings.

3. CHANGES IN ACCOUNTING POLICIES

The Group applied PFRS 15 and PFRS 9 for the first time effective January 1, 2018. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Unless otherwise stated, several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers.

PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

On February 14, 2018, the Philippines Interpretation Committee (PIC) issued PIC Q&A 2018-12 (PIC Q&A) which provides guidance on some implementation issues of PFRS 15 affecting real estate industry. On October 25, 2018 and February 8, 2019, the Philippine SEC issued SEC Memorandum Circular No. 14 Series of 2018 and SEC Memorandum Circular No. 3 Series of 2019, respectively, providing relief to the real estate industry by deferring the application of the following provisions of the above PIC Q&A for a period of three (3) years:

- a. Exclusion of land and uninstalled materials in the determination of percentage of completion (POC) discussed in PIC Q&A No. 2018-12-E
- b. Accounting for significant financing component discussed in PIC Q&A No. 2018-12-D
- c. Accounting to Common Usage Service Area (CUSA) Charges discussed in PIC Q&A No. 2018-12-H
- d. Accounting for Cancellation of Real Estate Sales discussed in PIC Q&A No. 2018-14.

The SEC Memorandum Circular also provided the mandatory disclosure requirements should an entity decide to avail of any relief. Disclosures should include:

- a. Discussion of the deferral of the subject implementation issues in the PIC Q&A
- b. Qualitative discussion of the impact to the financial statements had the concerned application guideline in the PIC Q&A has been adopted.
- c. Should any of the deferral options result into a change in accounting policy (e.g., when an entity excludes land and/or uninstalled materials in the POC calculation under the previous standard but opted to include such components under the relief provided by the circular), such accounting change will have to be accounted for under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, i.e., retrospectively, together with the corresponding required quantitative disclosures.

Effective January 1, 2021, real estate companies will adopt PIC Q&A No. 2018-12 and PIC Q&A No. 2018-14 and any subsequent amendments thereof retrospectively or as the SEC will later prescribe.

The Group does not availed the deferral of adoption of the above specific provisions of PIC Q&A because the Group's current accounting policy is consistent with the conclusion of PIC Q&A on the treatment of CUSA charges as discussed under PIC Q&A No. 2018-12-H.

The Group adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application of January 1, 2018. Under the modified retrospective method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to those contracts not completed as at January 1, 2018.

Adoption of this standard did not have significant impact on the Group's consolidated financial statements because the Group's contract with customers are already completed as at date.

PFRS 9, *Financial Instruments*

PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*, for annual periods beginning on or after 1 January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. The Group chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

- Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 will be retained for the comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.
- The Group will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as of December 31, 2017.

- There was no difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application that was recognized in the opening 'Retained earnings' or other component of equity, as appropriate.
- As comparative information is not restated, the Group is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

As of January 1, 2018, the Group has reviewed and assessed all of its existing financial assets, and financial liabilities. The table below illustrates the classification and measurement of financial assets and financial liabilities under PFRS 9 and PAS 39 at the date of initial application. The accounting policies adopted by the Group in its evaluation of the classification and measurement categories under PFRS 9 are discussed in a separate section of this note.

Classification and measurement

The measurement category and the carrying amount of financial assets and liabilities are in accordance with PAS 39.

There were no changes to the classification and measurement of financial liabilities.

The Group does not have financial assets and financial liabilities which had previously been designated at FVTPL to reduce an accounting mismatch in accordance with PAS 39 which had been reclassified to amortized cost or FVOCI upon transition to PFRS 9.

Impairment testing under expected credit loss (ECL) model

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach. PFRS 9 requires the Group to record an allowance for impairment losses for all loans and other debt financial assets not held at fair value through profit or loss (FVPL). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include net cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade receivables from tenants presented under receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

The Group used the internal loss given default by comparing security deposits and advance rentals made by tenants against outstanding receivables. Loss given default are classified as fully secured, partially secured and not secured. Fully secured is when security deposits and advance rentals are greater than outstanding receivables. Partially secured is when security deposits and advance rentals are less than the outstanding receivables. Not secured are those outstanding receivables from tenants with no corresponding security deposit and/or advance rental. Each classification has specific recovery rates used in determine the loss given default.

For installment contracts receivables (ICR) presented under receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group used the vintage analysis accounts for expected credit losses by calculating the cumulative loss rates of a given ICR and contract asset pool. It derives the probability of default from the historical data of a homogenous portfolio that share the same origination period. The information on the number of defaults during fixed time intervals of the accounts is utilized to create the probability model. It allows the evaluation of the loan activity from its origination period until the end of the contract period.

In addition to life of loan loss data, primary drivers like macroeconomic indicators of qualitative factors such as forward-looking data on inflation rates, purchasing power, gross domestic product (GDP) growth rate and GDP were added to the expected loss calculation to reach a forecast supported by both quantitative and qualitative data points.

The key inputs in the model include the Group's definition of default and historical data of nine years for the origination, maturity date and default date. The Group considers an ICR and contract asset in default when the Group forfeits and repossesses the property from the customer through cancellation. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The probability of default is applied to the estimate of the loss arising on default which is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the repossession of the subject real estate property, net of cash outflows. For purposes of calculating loss given default, accounts are segmented based on facility/collateral type and completion. In calculating the recovery rates, the Group considered collections of cash and/or cash from resale of real estate properties after foreclosure, net of direct costs of obtaining and selling the real estate properties after the default event such as commission, association dues, refurbishment, payment required under Maceda law and cost to complete (for incomplete units). As these are future cash flows, these are discounted back to the reporting date using the appropriate effective interest rate, usually being the original EIR or an approximation thereof.

The resulting recovery rate coming from the above process, resulted to zero loss given default, thus resulting to no recognized impairment loss.

For other financial assets such as cash and cash equivalents, accounts receivables and receivable from ultimate parent and related parties, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash and cash equivalents, the Group applies the low credit risk simplification in determining significant increase in credit risk since initial recognition. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor's (S&P), Moody's and Fitch to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

Further, since the implementation of PFRS 9, all financial assets (i.e. investments in FVOCI, investment in FVTPL, and nontrade receivables) except installment contracts receivable are

assessed for at least 12-month ECL (Stage 1, General Approach). Accordingly, the ECL for these financial assets are assessed to be insignificant.

PIC Q&A on Advances to Contractors and PIC Q&A on Land Classification

The Group adopted PIC Q&A 2018-11, *Classification of Land by Real Estate Developer* and PIC Q&A 2018-15, PAS 1- *Classification of Advances to Contractors in the Nature of Prepayments: Current vs. Non-current* starting January 1, 2018.

Advances to contractors and suppliers previously presented under current assets, representing prepayments for the construction of investment property was reclassified to non-current asset. Before the adoption of PIC Q&A 2018-15, the classification of the Group is based the timing of application of these advances against billings and timing of delivery of goods and services. This interpretation aims to classify the prepayment based on the actual realization of such advances based on the determined usage/realization of the asset to which it is intended for (e.g. investment properties and property plant and equipment).

The restatement did not result to the presentation of the third statement of financial position given the limited accounts affected.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

Adoption of these amendments did not have any impact to the Group because it does not have share-based payment transactions.

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Group since the Group has no activities that are connected with insurance contracts.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments are not applicable to the Group since the Group is not a venture capital organization or alike.

- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

The Group applied the amendments prospectively for all transfer into or out of investment property.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The adoption of the interpretation did not have any significant impact to the Group.

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group will apply this amendment if there are transactions of this nature in the future. None of its current transactions will fall under this feature.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The new lease standard will impact its leasing arrangements of office space and parcels of land as a lessee which will now require to record right of use asset and the related lease liability as these are currently accounted for as operating lease. There is no significant impact to the Group as a lessor for its investment portfolio. There will be more disclosures as required by the new standard.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Group does not expect this amendment to have significant impact to the consolidated financial statements because it does not currently have interests in associates and joint ventures.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is currently assessing the impact of adopting this interpretation.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and

assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

The amendments will apply on future disclosures of the Group.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
 - A simplified approach (the premium allocation approach) mainly for short-duration contracts
- PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The Group is not engaged in the business of insurance; hence, this standard is not applicable to the Group.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2017, the Financial Reporting Standards Council deferred the original effective date of January 1, 2017 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Current and Noncurrent Classification

The Group presents assets and liabilities in consolidated statement of financial position based on current/noncurrent classification.

An asset is current when:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after reporting date; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after reporting date.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after reporting date; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after reporting date.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Fair Value Measurement

The Group measures financial assets at FVOCI and FVTPL at fair values at each reporting date. Also, fair values of loans and receivables, other financial liabilities and non-financial assets measured at cost such as investment properties are disclosed in Note 12.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to

another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash

Cash includes cash on hand and in banks. Cash in banks earn interest at the prevailing interest rate.

Restricted Cash

Cash restricted for use are bank deposits restricted solely for payment of the principal amortization and interest of certain bank loans. These deposits bear prevailing interest rates and will be retained as deposits until the bank loans are fully paid.

Financial Instruments

Financial Instruments effective January 1, 2018

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established

by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes cash, receivables (except for advances to contractors and suppliers), receivable from related parties, and restricted cash under "Other noncurrent assets".

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- (a) The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and;
- (b) Selling and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of comprehensive income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to profit or loss.

The Group does not have debt instruments classified as financial assets at FVOCI.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of comprehensive income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group's equity instrument classified as financial assets designated at FVOCI includes investment in VLLI (Note 8).

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value with net changes in fair value recognized in the consolidated statement of comprehensive income.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at FVTPL.

Impairment of Financial Asset

The Group recognizes an allowance for expected credit losses for all financial assets at amortized cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

The Group uses the ratings from S&P, Moody's and Fitch to determine whether the debt instruments except receivables from related parties and other receivables has significantly increased in credit risk and to estimate ECLs. The Group's debt instruments are graded to be low credit risk based on the depository bank's credit ratings.

Financial Instruments prior to January 1, 2018

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date, which is the date when the Group commits to purchase or sell the asset.

Initial recognition of financial instruments

All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVTPL), the initial measurement of financial assets and liabilities include transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVTPL, AFS financial assets, and loans and receivables.

The Group classifies its financial liabilities as financial liabilities at FVTPL or other financial liabilities.

The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. The financial assets of the Group are of the nature of loans and receivable and AFS financial assets, while its financial liabilities are of the nature of other financial liabilities. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every reporting date.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

“Day 1” difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss under “Interest income” and “Interest and other financing charges” accounts unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference amount.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held-for-trading, designated as AFS or as financial assets at FVPL. Receivables are recognized initially at fair value. After initial measurement, loans and receivables are subsequently measured at cost or at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization, if any, is included in profit or loss. The losses arising from impairment of receivables are recognized in profit or loss. These financial assets are included in current assets if maturity is within twelve (12) months from the financial

reporting date. Otherwise, these are classified as noncurrent assets.

This accounting policy applies primarily to the Group's cash, receivables (except for advances to contractors), receivables from related parties and cash restricted for use included in other noncurrent assets.

AFS financial assets

AFS financial assets are nonderivative financial assets that are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognized in OCI and credited to the OCI until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the OCI to the consolidated statement of comprehensive income in interest and other financing charges. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

When the investment is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as gain or loss on disposal in profit or loss. Where the Group holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets are reported as interest and other income from investments using the EIR. Dividends earned on holding AFS financial assets are recognized in profit or loss as part of miscellaneous income when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as provisions for impairment losses in profit or loss.

When the fair value of AFS equity financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any impairment losses.

As of December 31, 2017 and 2016, AFS financial assets comprise of investment in mutual funds, quoted and unquoted equity securities. The investment in mutual funds is reclassified as FVTPL as at January 1, 2018. The quoted and unquoted equity securities are reclassified as FVOCI as at January 1, 2018.

Other financial liabilities

Other financial liabilities are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Gains and losses are recognized in profit or loss when the liabilities are derecognized (redemption is a form of derecognition), as well as through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

The financial liabilities measured at cost are accounts and other payables and other noncurrent liabilities. The financial liabilities measured at amortized cost are notes payable, bank loans and loans payable (except for deferred output tax and other statutory liabilities).

Impairment of Financial Assets

The Group assesses at each financial reporting date whether there is objective evidence that a

financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. The fact that title of the real estate properties are transferred only to the buyer upon full payment of the contract price is considered in the evaluation of impairment. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

The Group first assesses whether an objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost (i.e., loans and receivables or HTM investments) has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the assets' original EIR (excluding future credit losses that have not been incurred). If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset, together with the other assets that are not individually significant and were thus not individually assessed for impairment, is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as selling price of the lots and residential houses, past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to profit or loss. Financial assets carried at amortized costs, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS financial assets carried at fair value

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been

below its original cost. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of comprehensive income is removed from OCI and recognized in the statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. In the case of debt instruments classified as AFS, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

AFS financial assets carried at cost

If there is an objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Assets and Financial Liabilities under PFRS 9 and PAS 39

Financial asset

A financial asset (or, where applicable, a part of a group of financial assets) is derecognized where: (a) the rights to receive cash flows from the assets have expired; (b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or (c) the Group has transferred its right to receive cash flows from the asset and either: (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained the risks and rewards of the asset but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments under PFRS 9 and PAS 39

Financial assets and financial liabilities are offset and the net amount reported in the consolidated

statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Real Estate Inventories

Real estate inventories consist of subdivision land, residential houses and lots and condominium units for sale and development. These are properties acquired or being constructed for sale in the ordinary course of business rather than to be held for rental or capital appreciation. These are held as inventory and are measured at the lower of cost and net realizable value (NRV).

Cost includes:

- Acquisition cost of subdivision land;
- Amounts paid to contractors for construction and development of subdivision land, residential houses and lots and condominium units; and
- Capitalized borrowing costs, planning and design costs, cost of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less costs to complete and the estimated costs of sale. The carrying amount of inventories is reduced through the use of allowance account and the amount of loss is charged to profit or loss.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs. The total costs are allocated pro-rata based on the relative size of the property sold.

Creditable Withholding Tax

Creditable withholding tax pertains to taxes withheld on income payments and may be applied against income tax due. The balance of taxes withheld is recovered in future period.

Value-Added Tax

Input tax represents the VAT due or paid on purchases of goods and services subjected to VAT that the Group can claim against any future liability to the BIR for output VAT on sale of goods and services subjected to VAT. The input tax can also be recovered as tax credit under certain circumstances against future income tax liability of the Group upon approval of the BIR and/or Bureau of Customs. Input tax is stated at its estimated net realizable values. A valuation allowance is provided for any portion of the input tax that cannot be claimed against output tax or recovered as tax credit against future income tax liability. Input tax is recorded under current assets in the statement of financial position.

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

Prepaid Expenses

Prepaid expenses are carried at cost less the amortized portion. These typically comprise prepayments for marketing fees, taxes and licenses, rentals and insurance.

Refundable Deposits

Refundable deposits are measured at amortized cost. These pertain to deposits on utility subscriptions, rental deposits and security deposits which shall be applied against unpaid utility expenses and rent expenses upon termination of the contracts.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and any impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation and amortization of property and equipment commences once the property and equipment are available for use and computed using the straight-line basis over the estimated useful life of property and equipment as follows:

	Years
Office and other equipment	3 to 5
Transportation equipment	3
Construction equipment	1 to 2

The useful lives and depreciation and amortization method are reviewed annually to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Fully depreciated and amortized property and equipment are retained in the accounts until they are no longer in use. No further depreciation and amortization is charged against current operations.

Investment Properties

Investment properties comprise of land, completed property and property under construction or re-development that are held to earn rentals or for capital appreciation or both. Investment properties are measured initially at cost which consists of any directly attributable costs of bringing the investment properties to its intended location and working condition, including taxes and borrowing costs. Subsequent to initial recognition, investment properties, except for land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value.

Expenditures incurred after the investment property has been put in operation, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Construction-in-progress (CIP) is stated at cost. This includes cost of construction and other direct costs. CIP is not depreciated until such time as the relevant assets are completed and put into operational use. CIP are carried at cost and transferred to the related investment property account when the construction and related activities to prepare the property for its intended use are complete, and the property is ready for occupation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives (EUL) of the assets, regardless of utilization. The EUL and the depreciation and

amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of investment properties.

The EUL of building and building improvements is 10-40 years.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the parent company statement of comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. Transfers between investment property, owner-occupied property and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

Impairment of Nonfinancial Assets

This accounting policy relates to cash on hand, installment contract receivables, advances to contractors and suppliers, prepayments and other assets, property and equipment and investment properties.

The Group assesses as at reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase in OCI. After such reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Security deposit

Security deposits are measured at amortized cost. Security deposit are deposits received from various tenants upon inception of the respective lease control on the Group's investment properties. At the termination of the lease contracts, the deposit received by the Group are

returned to tenants, reduced by unpaid rental fees, penalties and/or deductions from repairs of damaged leased properties, if any. The related lease contracts usually have a term of more than 12 months.

Retention payable

Retention payable are amount withheld from the contractors as guaranty for any claims against them. These are settled and paid once the construction period has expired.

Construction bonds

Construction bonds are measured at amortized cost. Construction bonds are deposits from tenants undertaking construction and/or repairs of their leased commercial spaces. At the termination of the construction period, the deposit received by the Group are returned to tenants, reduced by penalties and/or deductions from repairs of damaged leased properties, if any. The construction contracts usually have a term of more than 12 months.

Equity

Capital stock is measured at par value for all shares subscribed, issued and outstanding. When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Retained earnings represent accumulated earnings of the Group less dividends declared. It includes the accumulated equity in undistributed earnings of consolidated subsidiaries which are not available for dividends until declared by the subsidiaries.

Revenue and Cost Recognition for Real Estate Sales Effective January 1, 2018

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, except for the provisioning of water and electricity services in its mall retail spaces and office leasing activities, wherein it is acting as agent.

Revenue Recognition for Real Estate Sales Prior to January 1, 2018

Revenue is recognized to the extent that it is probable that the economic benefits will flow and the amount of revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in certain revenue arrangements and as agent in certain transactions.

Rental income

Rental income from investment property is accounted for on a straight-line basis over the lease term.

Common usage and service area charges and administrative fees

Revenue is recognized when the performance of service has been substantially rendered. Income received from customer usage and service area charges is presented under "Rental income" while administrative fees is presented under "Other income" in the consolidated statement of comprehensive income.

Parking fees

Parking fees are recognized as revenue when earned.

Interest income

Interest is recognized using the effective interest method.

Unearned discount is recognized as income over the terms of the financial assets at amortized cost (i.e., loans and receivables) using the effective interest method and is shown as deduction for the financial assets.

Miscellaneous income

Miscellaneous income are recognized when the Group's right to receive payment is established.

Cost and expenses

Cost and expenses pertain to expenses incurred in relation to rental of investment properties and administering the business. These are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen than can be measured reliably. These are recognized when incurred and measured at the amount paid or payable.

Pension Cost

Defined benefit plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit (PUC) method.

Defined benefit costs comprise the following:

- (a) service cost;
- (b) net interest on the net defined benefit liability or asset; and
- (c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the

maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Income Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is provided using the liability method on temporary differences, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax liabilities shall be recognized for all taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures when the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in foreseeable future. Otherwise, no deferred tax liability is set up.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from excess of minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and NOLCO can be utilized.

Deferred tax assets shall be recognized for deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each financial reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that is expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss in the consolidated statement of comprehensive income. Deferred tax items recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred taxes relate to the same taxable entity and the same taxation authority.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets (included in “Investment properties” account in the consolidated statement of financial position). All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalized is calculated using the Group’s weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amounts capitalized is the gross interest incurred on those borrowings less any investment income arising on their temporary investment.

Interest is capitalized from the commencement of the development work until the date of practical completion. The capitalization of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site of property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- (b) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- (c) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for any of the scenarios above, and at the date of renewal or extension period for the second scenario.

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same bases as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the lease contract.

Group as a lessor

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing net income attributable to equity holders of the Parent Company by the weighted average number of common shares issued and outstanding during the year adjusted for any subsequent stock dividends declared. Diluted EPS is computed by dividing net income attributable to the equity holders of the Parent Company by the weighted average number of common shares issued and outstanding during the year after giving effect to assumed conversion of potential common shares. The calculation of diluted EPS does not assume conversion, exercise, or other issue of potential common shares that would have an antidilutive effect on earnings per share.

As of March 31, 2019, and December 31, 2018, the Group has no potential dilutive common shares.

Segment Reporting

The Group's business is primarily leasing of retail malls and BPO commercial centers which are all located in the Philippines and treated as one segment. The segmentation is the basis of the chief operating decision market's internal reports allocation resources, and the evaluation of performance.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risk specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized only when the reimbursement is virtually certain. The expense relating to any provision is presented in consolidated statement of comprehensive income net of any reimbursement.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Financial Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Any post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of accompanying consolidated financial statements in compliance with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. Actual results could differ from such estimates.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Classification of financial instruments upon adoption of PFRS 9

Management exercises certain judgments in determining the cash flow characteristics of its financial assets and the Group's business model for managing them. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Business models

The Group determines its business model at the level that best reflects how it manages groups of financial assets and contract assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets and contract assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets and contract assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets and contract assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Classification of financial instruments prior to adoption of PFRS 9

The Group's classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. The financial assets of the Company are of the nature of loans and receivable and AFS financial assets, while its financial liabilities are of the nature of other financial liabilities. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every reporting date.

Operating lease commitments - the Group as lessee

The Group has entered into contract of lease for some of the office space it occupies. The Group has determined that all significant risks and benefits of ownership on these properties will be retained by the lessor. In determining significant risks and benefits of ownership, the Group considered, among others, the significance of the lease term as compared with the EUL of the related asset. The Group accordingly accounted for these as operating leases.

Operating lease commitments - the Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all significant risks and rewards of ownership of these properties as the Group considered among others the length of the lease term as compared with the EUL of the assets.

Management's Use of Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Simplified approach for trade receivables from tenants

The Group uses standard simplified approach to calculate ECLs for trade receivables from tenants. The Group segmented its credit risk exposures into fully secured, partially secured and not secured receivables by comparing the outstanding trade receivables from tenants with the security deposit and advance rentals of tenants.

Impairment of loans and receivables prior to adoption of PFRS 9

The Group reviews its receivables on a periodic basis to assess impairment of receivables at an individual and collective level. In assessing for impairment, the Group determines whether there is any objective evidence indicating that there is a measurable decrease in the estimated future cash flows of its loans and receivables. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or industry-wide or local economic conditions that correlate with defaults on receivables. These factors include, but are not limited to age of balances, financial status of counterparties, payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies individually significant accounts that are to be provided with allowance.

For the purpose of a collective evaluation of impairment, loans are grouped on the basis of such credit risk characteristics as type of borrower, collateral type, past-due status and term.

The amount and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment would increase recorded expenses and decrease net income.

Loans and receivables, net of allowance for impairment losses, amounted to ₱8,457 million as of March 31, 2019. The allowance for impairment on loans and receivables amounted to zero as of March 31, 2019 (Note 9).

Determining fair values of financial assets and liabilities

Fair value determinations for financial assets and liabilities are based generally on listed market prices or broker or dealer quotations. If prices are not readily determinable or if liquidating the positions is reasonably expected to affect market prices, fair value is based on either internal valuation models or management's estimate of amounts that could be realized under current market condition, assuming an orderly liquidation over a reasonable period of time.

Impairment of nonfinancial assets

The Group assesses as at reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are

discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation. Certain financial assets and liabilities were initially recorded at its fair value by using the discounted cash flow methodology.

6. SEGMENT INFORMATION

The Group's malls and BPO centers are all located in the Philippines and are treated as one operating segment. The real estate development of Manuela is very minimal to the overall operations and financial position of the Group as of March 31, 2019 and 2018. These were not treated as a separate segment by the chief operating decision maker for its review, evaluation and allocation of resources.

The Group has operating lease agreements with All Value Holdings, Inc. and Subsidiaries (All Value Group), an entity under common control, which is comprised of AllHome Corporation, AllDay Retail Concepts, Inc, Family Shoppers Unlimited Inc. and CM Star Management, Inc., for the leases of commercial spaces. Revenue earned from All Value Group which is engaged in retail businesses covering supermarkets, retail of apparel, construction materials and home/building appliances and furnishings constitutes more than 10% of the Group's total revenue in the three months ended March 31, 2019 and 2018.

The leasing operations have no noted significant seasonality in operations.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of March 31, 2019:

Cash on hand and in banks	₱ 402
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Cash in banks earns interest at the prevailing bank deposit rates. Cash equivalents are short-term, highly liquid investments that are made for varying periods of up to three (3) months depending on the immediate cash requirements of the Group and earn interest as follows:

Philippine Peso	1.20% to 2.00%
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8. INVESTMENTS AT FVTPL AND FVOCI

The breakdown of this account is as follows:

Investments at FVTPL	₱ 29
Investments at FVOCI	4,176
	₱ 4,205

The fair values of the investments at FVTPL and FVOCI in financial assets have been determined directly by reference to published prices in an active market

The investments at FVTPL and FVOCI financial assets classified as current assets in the consolidated statements of financial position is intended by management to be disposed within 12 months from the end of the reporting period.

Interest income from investments at FVTPL and FVOCI financial assets are presented as part of Finance Income under the Other Income (Charges) account in the consolidated statements of comprehensive income.

9. RECEIVABLES

The balance of this account is composed of the following as of March 31, 2019:

Trade receivables from tenant	₱ 4,087
Advances to contractors and suppliers	4,230
Installment Contract receivables	62
Others	78
Total	8,457
Less allowance for bad debts	-
	8,457
Less noncurrent portion	(4,230)
Total Current portion	₱ 4,227

All of the Group's trade and other receivables have been reviewed for indications of impairment.

Receivables from tenants represent the outstanding receivables arising from the lease of commercial spaces relating to the Group's mall operations and are collectible within 30 days from billing date.

Advances to contractors and suppliers are advance payments in relation to the Group's construction activities and purchases of owner supplied materials. These are recouped through reduction against progress billings as the construction progresses which are expected to occur within one year from the date the receivables arose.

Installment contracts receivable consist of account collectible in equal monthly installments with various terms up to a maximum of 15 years. These are carried at amortized cost. The corresponding titles to the subdivision sold under this arrangement are transferred to the buyers only upon full payment of the contract price.

10. REAL ESTATE PROPERTIES FOR SALE

Real estate properties for sale as of March 31, 2019 are stated at cost, the details of which are shown below.

Land	₱ 166
Residential units for sale	137
	₱ 303

Residential units for sale represent houses and lots in completed subdivision projects for which the Group has already been granted the license to sell by the HLURB of the Philippines. Residential units include units that are ready for occupancy, house models and units under construction.

11. PREPAYMENTS AND OTHER ASSETS

This account is composed of the following as of March 31, 2019:

Current	
Input VAT	₱ 1,524
Prepayments	177
Creditable Withholding Tax	39
Refundable Deposits	79
Others	16
	₱ 1,835
Non-Current	
Refundable deposits	₱ 105
Restricted Cash	736
	₱ 841

The input VAT is applied against output VAT. The remaining balance is recoverable in future periods.

Prepayments pertain to prepaid taxes, insurance premiums, employee benefits, repairs and rent, which will be utilized within 12 months from the end of the reporting period.

Refundable deposits pertain to deposits on utility subscriptions, rental deposits and security deposits. These deposits shall be applied against unpaid utility expenses and rent expenses upon termination of the contracts.

Creditable withholding taxes pertain to taxes withheld by the customer and are recoverable and can be applied against income tax in future periods.

Others include accrued interest receivable, penalties receivable from tenants due to late payments, security deposits, advance rentals and office supplies.

12. INVESTMENT PROPERTY

The Group's investment property includes several parcels of land and building and improvements, which are owned and held for capital appreciation and rental purposes.

The Group's investment property generates rental income under various operating lease agreements. Rental income from the investment property amounting to ₱1,630 million and ₱1,376 million for the period ended March 31, 2019 and 2018, respectively, are presented as Rental income under Revenues and Income in the consolidated statements of comprehensive income.

Direct costs incurred generally pertain to depreciation charges and real property taxes. Real property tax related to investment property was recognized as part of Taxes and Licenses in the consolidated statements of comprehensive income. Depreciation charges are presented as part of Depreciation and Amortization in the consolidated statements of comprehensive income.

The composition of this account is shown below.

Land	₱ 11,740
Building and improvements	16,527
Construction In Progress	8,943
	<u>₱ 37,210</u>

Commercial building under construction pertains to accumulated costs incurred in the development of certain commercial buildings. Capitalized borrowing costs representing the actual borrowing costs incurred on loans obtained to fund the construction project are included as part of the costs of Investment Property.

Fair Value of Investment Property

In 2016, the Company secured the services of an independent firm of appraisers to determine the fair market values of the Company's investment as of December 31, 2017. Fair market value of investment property is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

The results of the appraisal below showed that the fair market values of investment property exceeded the related carrying amounts as of December 31, 2017.

	Land	Buildings and Improvements	Total
Company -			
Land in Valenzuela City	₱ 42,000,000	₱ –	₱ 42,000,000
MAPI:			
Sta. Rosa, Laguna	1,206,000,000	1,535,000,000	2,741,000,000
Imus, Cavite	227,000,000	318,000,000	545,000,000
Land in Bacoar, Cavite	4,591,000,000	753,000,000	5,344,000,000
Starmall San Jose del Monte	210,000,000	1,511,000,000	1,721,000,000
Mandaluyong City	232,000,000	415,000,000	647,000,000
Starmall Prima Taguig	1,464,000,000	1,276,000,000	2,740,000,000
Starmall Azienda	–	368,000,000	368,000,000
Manuela:			
Starmall Alabang	2,916,000,000	3,469,000,000	6,385,000,000
Starmall EDSA-Shaw	3,001,000,000	1,170,000,000	4,171,000,000
Starmall Las Piñas	394,100,000	1,642,900,000	2,037,000,000
Starmall Las Piñas-Annex	121,000,000	100,000,000	221,000,000
WCC	–	1,935,000,000	1,935,000,000
	<u>₱ 14,404,100,000</u>	<u>₱ 14,492,900,000</u>	<u>₱ 28,897,000,000</u>

13. LIABILITY FOR PURCHASED LAND

Liability for purchased land represents the outstanding payable as of March 31, 2019 and December 31, 2018 relating to the Group's acquisition of certain parcels of land.

Additions in March 31, 2019 and December 31, 2018 pertains to land purchases in various locations from individual third parties to be held as future commercial building construction sites. From these purchases, the Company had outstanding liability of ₱178 million, payable in the next 12 months, and ₱213 million with maturity of more than 1 year, presented as part of

the Liability for land acquisition in the current and non-current liabilities section, respectively, as of March 31, 2019.

14. TRADE AND OTHER PAYABLES

This account consists of:

Retention payable	₱651
Trade payables	466
Deferred output vat	535
Accrued expenses	517
Others	11
	₱2,180

Retentions payable pertains to 10% retention from the contractors' progress billings which will be released after the completion of contractors' project. The 10% retention serves as a holdout amount withheld from the contractor to cover for back charges that may arise from quality issues in affected projects.

Trade payables represent construction materials, marketing collaterals and office supplies ordered and delivered but not yet due. These are expected to be settled within a year after the recognition period.

Accrued expenses represent the accrual for security, building maintenance and janitorial services, salaries and employee benefits, professional fees, interest on interest-bearing loans and borrowings and other administrative expenses as well as marketing and advertising expenses, which are expected to be settled within 12 months after the end of the reporting period.

Other payables pertain to salaries related premiums and loans payable and withholding taxes payable.

15. INTEREST BEARING LOANS AND BORROWINGS

The breakdown of this account is as follows:

Interest bearing loans – Current	₱1,176
Interest bearing loans - Non current	4,291
	₱5,467

Loans of Manuela

In 2015, the loan obtained from BDO worth 4,000 million considered general borrowings and has a maturity of seven years from the date of drawdown and bears an annual fixed interest rate of 5.75%. The Company transferred 1,800 million to MAPI contractors and 1,670 million to Parent Company for meeting working capital requirements. The remaining amount from the loan borrowed was used for the construction of BPO building and parking building in Las Piñas and for the redevelopment of other buildings owned by the Company. Real estate contracts under Starmall Alabang used as a mortgage for long term loan obtained by the company from BDO.

In 2014, the Company obtained various loans from UBP to finance the upgrade of the air conditioning systems of Starmall Las Piñas and Starmall Las Piñas - Annex and the acquisition

of generator set upgrades for all the malls of the Company. The loans have maturities of five years from the date of drawdown and bear fixed annual interest rate of 5.75%. In 2013 and previous years, the Company also obtained various term loans from BDO and PDB to finance the upgrade of the air conditioning systems of Starmall EDSA - Shaw and Starmall Alabang and the expansion of the business process outsourcing area of WCC. The loans have maturities from October 2014 to February 2020 and bear an annual fixed interest rates ranging from 7.00% to 7.25%.

Certain properties registered under the name of MAPI are used as third party real estate mortgage for the secured long-term loan obtained from PDB.

Certain Investment properties are used as collaterals for loans obtained from local creditor banks.

Loans of MAPI

On July 24, 2017, MAPI, a subsidiary of the Company obtained a 10-year unsecured peso-denominated loan from a local bank amounting ₱500 million which bears annual fixed interest rate of 6.2255%. The principal balance of the loan will be paid in thirty two (32) equal quarterly installments commencing on the ninth interest payment date. The loan requires MAPI to maintain a current ratio of at least 1.00:1.00, a maximum debt-to-equity ratio of 2.50:1.00 and a debt-service coverage ratio (DSCR) of at least 1.00:100.

In 2015, MAPI entered into a term loan agreement with RCBC amounting to 2,274 million primarily to finance various ongoing mall constructions. The loans have maturities of seven years from the date of drawdown and bear an annual fixed interest rate of 5.75%.

In 2014, MAPI entered into a term loan agreement with CBC and AUB amounting to 1,000 million and 366 million, respectively, primarily to finance various ongoing mall constructions. The loan with CBC has maturities beginning December 2016 to June 2017 and bears annual interest of 4.50% while the loan with AUB has maturities beginning December 2014 to December 2019 and bears annual interest of 6.25%.

In connection with the loan entered with CBC, MAPI agreed to execute a negative pledge over certain real properties. MAPI cannot allow any other indebtedness to be secured by the covered real properties nor permit any other creditor to receive any priority or preference over the covered real properties, without written consent from the CBC.

In addition, the loan agreement with RCBC and AUB requires MAPI to maintain a current ratio of not lower than 1.50:1.00 and debt-equity ratio of not higher than 3.00:1.00. MAPI has complied with these loan covenants, including maintaining certain financial ratios as at the reporting dates.

MAPI is also required to maintain a reserve fund for its future loan and interest repayments.

In 2012, MAPI obtained a loan from AUB amounting to 420 million to finance the construction of Starmall San Jose del Monte. The loan is due to be settled until 2017 and bears annual interest rate of 5.70%.

16. EQUITY

Capital Stock

Capital stock consists of:

	Shares		Amount	
	31-Mar-19	31-Dec-18	31-Mar-19	31-Dec-18
Preferred shares - voting, cumulative, non-participating, non convertible, non-redeemable - P0.01 par value				
Authorized	<u>10,000,000,000</u>	10,000,000,000	<u>P 100,000,000</u>	<u>P 100,000,000</u>
Issued and outstanding:				
Balance at beginning of year	<u>2,350,000,000</u>	2,350,000,000	<u>P 23,500,000</u>	<u>P 23,500,000</u>
Issuance during the year	<u>-</u>	-	<u>-</u>	-
Balance at end of year	<u>2,350,000,000</u>	<u>2,350,000,000</u>	<u>P 23,500,000</u>	<u>P 23,500,000</u>
Common shares - P1.00 par value				
Authorized	<u>16,900,000,000</u>	16,900,000,000	<u>P 16,900,000,000</u>	<u>P 16,900,000,000</u>
Issued and outstanding:				
Balance at beginning of year	<u>8,425,981,156</u>	8,425,981,156	<u>P 8,425,981,156</u>	<u>P 8,425,981,156</u>
Issuance during the year	<u>-</u>	-	<u>-</u>	-
Balance at end of year	<u>8,425,981,156</u>	<u>8,425,981,156</u>	<u>P 8,425,981,156</u>	<u>P 8,425,981,156</u>
			<u>P 8,449,481,156</u>	<u>P 8,449,481,156</u>

On May 14, 2012, the BOD approved the increase in the Company's authorized capital stock from P5.5 billion divided into 5.5 billion shares with P1 par value to P17.0 billion divided into 16.9 billion common shares with P1 par value and 10.0 billion preferred shares with P0.01 par value. The application for increase in authorized capital stock was approved by the SEC on June 22, 2012.

Each preferred share is a voting, cumulative, non-participating, non-convertible and non-redeemable share.

The list of common shareholders of the Company is shown in the next page with their respective number of shares held:

	Number of Shares Issued	Percentage Ownership
VLLI	7,443,194,641	88.34%
L&H	808,431,465	9.59%
Others	<u>174,355,050</u>	<u>2.07%</u>
	<u>8,425,981,156</u>	<u>100.00%</u>

The following also illustrates the additional listings made by the Company:

On November 13, 1970, the SEC approved the listing of the Company's common shares totaling 1.0 billion. The shares were initially issued at an offer price of ₱0.01 per share.

On November 10, 2004, the SEC approved the increase in the authorized capital stock of the Company to ₱4.5 billion divided into 4.5 billion shares with a par value of ₱1.00 each, as authorized by the Company's BOD.

In 2005, the Company applied for another increase in its authorized capital stock to ₱5.5 billion divided into 5.5 billion shares with a par value of ₱1.00 each, as authorized by the Company's BOD. On November 23, 2005, the SEC approved the increase in the authorized capital stock of the Company.

As of March 31, 2019 and December 31, 2018, 8,425,981,156 shares are listed in the PSE and closed at ₱6.74 and ₱5.40 per share, respectively.

Retained Earnings

On September 26, 2018, the BOD approved the declaration of a regular cash dividend amounting ₱412.2 million or ₱0.0489 per share, payable to all stockholders of record as of October 11, 2018. The said dividends were paid on October 25, 2018.

On September 27, 2017, the BOD approved the declaration of a regular cash dividend amounting ₱310.3 million or ₱0.0368 per share, payable to all stockholders of record as of October 12, 2017. The said dividends were paid on October 26, 2017.

On September 26, 2016, the BOD approved the declaration of a regular cash dividend amounting ₱180.89 million or ₱0.0215 per share, payable to all stockholders of record as of October 11, 2016. The said dividends were paid on October 26, 2016.

17. OTHER OPERATING INCOME AND EXPENSES

This account consists of:

Occupancy expenses	₱171
Outside services	110
Repairs and maintenance	39
Advertising and promotions	17
Salaries and employee benefits	58
Taxes and licenses	46
Others	31
Total	₱472

18. EARNINGS PER SHARE

Earnings per share were computed as follows:

Net Profit attributable to parent company's shareholders	₱651
Divided by weighted outstanding common shares	8,426
Earnings per share	₱0.077

Diluted earnings per share was not determined since the Group does not have potential dilutive shares as of March 31, 2019 and 2018.

Financial Soundness Indicator

Below are the financial ratios that are relevant to the Group for the period ended March 31, 2019 and 2018.

		Mar-31-19	Dec-31-18
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.39	0.41
Long-term debt-to-equity ratio	$\frac{\text{Long-term debt}^1}{\text{Equity}}$	0.20	0.20
Debt ratio	$\frac{\text{Interest bearing debt}^2}{\text{Total assets}}$	0.10	0.13
Debt to equity ratio	$\frac{\text{Interest bearing debt}}{\text{Total equity}}$	0.26	0.30
Net debt to equity	$\frac{\text{Net debt}^3}{\text{Total equity}}$	0.24	0.28
Asset to equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	2.44	2.38
		Mar-31-19	Mar-31-18
EBITDA to total interest	$\frac{\text{EBITDA}}{\text{Total interest}}$	10.95	9.48
Price Earnings Ratio	$\frac{\text{Market Capitalization}^4}{\text{Net Income}^5}$	21.68	57.46
Asset to liability ratio	$\frac{\text{Total assets}}{\text{Total liabilities}}$	1.69	1.79
Net profit margin	$\frac{\text{Net profit}}{\text{Sales}}$	0.37	0.39
Return on assets	$\frac{\text{Net income}^5}{\text{Total assets}}$	4.7%	4.84%
Return on equity	$\frac{\text{Net income}^5}{\text{Total equity}}$	11.44%	11.04%
Interest Service Coverage Ratio	$\frac{\text{EBITDA}}{\text{Total interest}}$	10.95	9.48

¹ Pertains to long term portion of the Bank loans and Notes Payable

² Includes Bank Loans and Notes Payable

³ Interest bearing debt less Cash, Short-term and Long Term Cash Investments, Available-for-sale financial assets (excluding unquoted equity securities) & Held-to-Maturity Investments

⁴ Based on closing price at March 31, 2019 and 2018

⁵ Annualized

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of operations covering three months ended March 31, 2019 vs. three months ended March 31, 2018

Revenues

Rental income increased by 18% from ₱1,376 million in the three months ended March 31, 2018 to ₱1,630 million in the period ended March 31, 2019. The increase was primarily attributable to the increase in occupancy and rental rates of the existing malls and additional gross floor area of the new commercial assets for the period.

Other operating income increased by 11% from ₱122 million in the three months ended March 31, 2018 to ₱135 million in the period ended March 31, 2019 due to the increase in other operating income generated from the commercial assets.

Cost and Expenses

Operating expenses increased by 21% from ₱663 million in the three months ended March 31, 2018 to ₱802 million in the period ended March 31, 2019 due to the increase in depreciation, occupancy expenses and outside services for the period.

Finance costs increased by 557% from ₱7 million in the period ended March 31, 2018 to ₱46 million in the period ended March 31, 2019 decrease due to a lower capitalization for the period as more investment properties have been completed.

Provision for tax increased by 6% from ₱251 million in the period ended March 31, 2018 to ₱267 million in the period ended March 31, 2019 due to the higher taxable income in the 3-months of 2019.

Net Income

As a result of the foregoing, the Group's net income increased by 13% from ₱582 million in the three months ended March 31, 2018 to ₱655 million in the three months ended March 31, 2019.

For the three months ended March 31, 2019, there were no seasonal aspects that had a material effect on the financial condition or results of operations of the Group. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from continuing operations. The Group is not aware of events that will cause a material change in the relationship between costs and revenues.

There are no significant elements of income or loss that did not arise from the Group's continuing operations.

Financial Condition as of March 31, 2019 vs. December 31, 2018

Total assets were ₱55,849 million as of March 31, 2019 and ₱52,917 million as of December 31, 2018. The 6% increase is due to the following:

- Trade and other receivables, including non-current portion increased by 23% from ₱6,858 million as of December 31, 2018 to ₱8,457 million as of March 31, 2019 mainly due to the increase in rental revenue for the period.

- Investment properties increased by 5% from ₱35,316 million as of December 31, 2018 to ₱37,210 million as of March 31, 2019 mainly due to the expansion of the Company's leasable properties.
- Real estate and properties for sale decreased by 6% from ₱322 million as of December 31, 2018 to ₱303 million as of March 31, 2019 due to higher transfers to investment properties.
- Prepayments and other assets decreased by 33% from ₱2,987 million as of December 31, 2018 to ₱1,997 million as of March 31, 2019 due to the decrease in input vat.

Total Liabilities as of March 31, 2019 were ₱32,953 million, 7% higher compared to ₱30,675 million as of December 31, 2018. This was due to the following:

- Trade and other payables decreased by 10% from ₱2,424 million as of December 31, 2018 to ₱2,180 million as of March 31, 2019 due to lower settlements for the period.
- Liability for purchased land including current portion, decreased by 51% from ₱795 million as of December 31, 2018 to ₱391 million as of March 31, 2019 due to settlements for the period.
- Income tax payable increased by 13% from ₱64 million as of December 31, 2018 to ₱72 million as of March 31, 2019 due to higher tax for the period.
- Interest bearing loans and borrowings including current portion, decreased by 7% from ₱5,857 million as of December 31, 2018 to ₱5,467 million as of March 31, 2019 due to settlements for the period.
- Payables to related parties - net, increased by 17% from ₱15,526 million as of December 31, 2018 to ₱18,093 million as of March 31, 2019 due to advances received from related party for the period.
- Deferred tax liabilities - net increased by 10% from ₱2,307 million as of December 31, 2018 to ₱2,538 million as of March 31, 2019 due to additional temporary differences for the period.
- Other noncurrent liabilities increased by 19% from ₱802 million as of December 31, 2018 to ₱957 million as of March 31, 2019 due to higher security deposits for the period.

Total stockholder's equity increased by 3% from ₱22,242 million as of December 31, 2018 to ₱22,896 million as of March 31, 2019 due to net income recorded for the period.

Top Five (5) Key Performance Indicators

Considered as the top five key performance indicators of the Group as shown below:

Key Performance Indicators	03/31/2019	12/31/2018
Current ratio ^(a)	0.39	0.41
Debt-to-equity ratio ^(b)	0.26	0.30
	03/31/2019	03/31/2018
Interest coverage ratio ^(c)	10.95	9.48
EBITDA margin ^(d)	73%	73%
Return on equity ^(e)	11.4%	11.0%

Notes:

- (a) *Current Ratio: This ratio is obtained by dividing the Current Assets of the Company by its Current liabilities. This ratio is used as a test of the Company's liquidity.*
- (b) *Debt-to-equity ratio: This ratio is obtained by dividing the Company's Total Interest-bearing Debt by its Total Equity. The ratio reveals the proportion of debt and equity a company is using to finance its business. It also measures a company's borrowing capacity.*
- (c) *Interest coverage: This ratio is obtained by dividing earnings before interest, taxes depreciation and amortization (EBITDA) by the interest expense. This ratio shows whether a company is earning enough profits before interest to pay its interest cost comfortably.*
- (d) *Earnings before interest, income taxes, depreciation and amortization (EBITDA) margin: This ratio is obtained by dividing the Company's Earnings before interest, income taxes, depreciation and amortization by the total revenue. This measures the Company's operating profitability.*
- (e) *Return on equity: This ratio is obtained by dividing the Company's net income (net of income from acquisition of subsidiary) by its total equity. This measures the rate of return on the ownership interest of the Company's stockholders.*

Because there are various calculation methods for the performance indicators above, the Company's presentation of such may not be comparable to similarly titled measures used by other companies.

Current Ratio as of March 31, 2019 slightly decreased from that of March 31, 2018 due to a higher increase in the current liabilities coming from payable to related parties.

Debt to equity ratio as of March 31, 2019 decreased from that of December 31, 2018 due to settlement of debt for the period.

Interest coverage for the period ended March 31, 2019 increased because of the increase in the company's EBITDA.

Return on equity increased as a result of improvement in net income for the period.

Material Changes to the Company's Statement of Financial Position as of March 31, 2019 compared to December 31, 2018 (increase/decrease of 5% or more)

Trade and other receivables, including non-current portion increased by 23% from ₱6,858 million as of December 31, 2018 to ₱8,457 million as of March 31, 2019 mainly due to the increase in rental revenue for the period.

Investment properties increased by 5% from ₱35,316 million as of December 31, 2018 to ₱37,210 million as of March 31, 2019 mainly due to the expansion of the Company's leasable properties.

Real estate and properties for sale decreased by 6% from ₱322 million as of December 31, 2018 to ₱303 million as of March 31, 2019 due to higher transfers to investment properties.

Prepayments and other assets decreased by 33% from ₱2,987 million as of December 31, 2018 to ₱1,997 million as of March 31, 2019 due to the decrease in input vat.

Trade and other payables decreased by 10% from ₱2,424 million as of December 31, 2018 to ₱2,180 million as of March 31, 2019 due to lower settlements for the period.

Liability for purchased land including current portion, decreased by 51% from ₱795 million as of December 31, 2018 to ₱391 million as of March 31, 2019 due to settlements for the period.

Income tax payable increased by 13% from ₱64 million as of December 31, 2018 to ₱72 million as of March 31, 2019 due to higher tax for the period.

Interest bearing loans and borrowings including current portion, decreased by 7% from ₱5,857 million as of December 31, 2018 to ₱5,467 million as of March 31, 2019 due to settlements for the period.

Payables to related parties - net, increased by 17% from ₱15,526 million as of December 31, 2018 to ₱18,093 million as of March 31, 2019 due to advances received from related party for the period.

Deferred tax liabilities - net increased by 10% from ₱2,307 million as of December 31, 2018 to ₱2,538 million as of March 31, 2019 due to additional temporary differences for the period.

Other noncurrent liabilities increased by 19% from ₱802 million as of December 31, 2018 to ₱957 million as of March 31, 2019 due to higher security deposits for the period.

Material Changes to the Company's Statement of Comprehensive Income for the three months ended March 31, 2018 compared to the three months ended March 31, 2017 (increase/decrease of 5% or more)

Rental income increased by 18% from ₱1,376 million in the three months ended March 31, 2018 to ₱1,630 million in the period ended March 31, 2019. The increase was primarily attributable to the increase in occupancy and rental rates of the existing malls and additional gross floor area of the new commercial assets for the period.

Other operating income increased by 11% from ₱122 million in the three months ended March 31, 2018 to ₱135 million in the period ended March 31, 2019 due to the increase in other operating income generated from the commercial assets.

Operating expenses increased by 21% from ₱663 million in the three months ended March 31, 2018 to ₱802 million in the period ended March 31, 2019 due to the increase in depreciation, occupancy expenses and outside services for the period.

Finance costs increased by 557% from ₱7 million in the period ended March 31, 2018 to ₱46 million in the period ended March 31, 2019 decrease due to a lower capitalization for the period as more investment properties have been completed.

Provision for tax increased by 6% from ₱251 million in the period ended March 31, 2018 to ₱267 million in the period ended March 31, 2019 due to the higher taxable income in the 3-months of 2019.

The Group's net income increased by 13% from ₱582 million in the three months ended March 31, 2018 to ₱655 million in the three months ended March 31, 2019.

There are no other material changes in the Company's financial position (changes of 5% or more) and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would impact or change reported financial information and condition on the Company.

COMMITMENTS AND CONTINGENCIES

The Parent Company's subsidiaries are contingently liable for guarantees arising in the ordinary course of business, including surety bonds, letters of guarantee for performance and bonds for its entire real estate project.

The Company is contingently liable with respect to certain lawsuits and other claims which are being contested by the subsidiaries and their legal counsels. Management and their legal counsels believe that the final resolution of these claims will not have a material effect on the consolidated financial statements.

There are no known trends or demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in increasing or decreasing the Company's liquidity in any material way. The Company sourced its capital requirements through a mix of internally generated cash, sale of liquid assets like installment contracts receivables, pre-selling and joint venture undertakings. The Company does not expect any material cash requirements beyond the normal course of the business. The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation except for those items disclosed in the 3-months of 2019 Financial Statements.

There are no material off-balance sheet transactions, arrangements, obligation (including contingent obligations), or other relationships of the Company with unconsolidated entities or other persons created during the reporting period except those disclosed in the 3-months of 2019 Financial Statements.

There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonably expected to have a material impact on the continuing operations of the Company. There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company. There are no explanatory comments on the seasonality of the operations. There are no material events subsequent to the end of the fiscal period that have not been reflected in the financial statements.

There are no material amounts affecting assets, liabilities, equity, net income or cash flows that are unusual in nature; neither are there changes in estimates of amounts reported in a prior period of the current financial year.

PART II - OTHER INFORMATION

Item 3. 3-months of 2019 Developments

A. New Projects or Investments in another line of business or corporation.

None.

B. Composition of Board of Directors

Manuel B. Villar Jr.	Chairman of the Board
Benjaminie Therese N. Serrano	Director and President
Manuel Paolo A. Villar	Director
Camille A. Villar	Director
Adisorn Thananan-Narapool	Director
Joel L. Bodegon	Independent Director
Raul Juan N. Esteban	Independent Director

C. Performance of the corporation or result/progress of operations.

Please see unaudited Financial Statements and Management's Discussion and Analysis.

D. Declaration of Dividends.

₱0.0489 per share Regular Cash Dividend

Declaration Date: September 26, 2018

Record date: October 11, 2018

Payment date: October 25, 2018

₱0.0368 per share Regular Cash Dividend

Declaration Date: September 27, 2017

Record date: October 12, 2017

Payment date: October 26, 2017

₱0.0215 per share Regular Cash Dividend

Declaration Date: September 26, 2016

Record date: October 11, 2016

Payment date: October 26, 2016

E. Contracts of merger, consolidation or joint venture; contract of management, licensing, marketing, distributorship, technical assistance or similar agreements.

None.

F. Offering of rights, granting of Stock Options and corresponding plans therefore.

None.

G. Acquisition of additional mining claims or other capital assets or patents, formula, real estate.

None.

H. Other information, material events or happenings that may have affected or may affect market price of security.

None

I. Transferring of assets, except in normal course of business.

None.

Item 4. Other Notes as of the 3-months of 2018 Operations and Financials.

J. Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.

None.

K. Nature and amount of changes in estimates of amounts reported in prior periods and their material effect in the current period.

There were no changes in estimates of amounts reported in prior interim period or prior financial years that have a material effect in the current interim period.

L. New financing through loans/ issuances, repurchases and repayments of debt and equity securities.

See Notes to Financial Statements and Management Discussion and Analysis.

M. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

None.

N. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discontinuing operations.

None.

O. Changes in contingent liabilities or contingent assets since the last annual balance sheet date.

None.

P. Existence of material contingencies and other material events or transactions during the interim period.

None.

Q. Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

None.

R. Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

None.

S. Material commitments for capital expenditures, general purpose and expected sources of funds.

The movement of capital expenditures being contracted arose from the regular land development, commercial building construction and requirements which are well within the regular cash flow budget coming from internally generated funds.

T. Known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/income from continuing operations.

As of March 31, 2019, no known trends, events or uncertainties that are reasonably expected to have impact on sales/revenues/income from continuing operations except for those being disclosed in the first three months of 2019 financial statements.

U. Significant elements of income or loss that did not arise from continuing operations.

None.

V. Causes for any material change/s from period to period in one or more line items of the financial statements

None.

W. Seasonal aspects that had material effect on the financial condition or results of operations

None.

X. Disclosures not made under SEC Form 17-C.

None.

SIGNATURES

Pursuant to the requirements of Section 17 of the SRC and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized.

STARMALLS, INC.

Issuer

By:


CYNTHIA J. JAVAREZ

Chief Financial Officer & Treasurer

Date: May 15, 2019